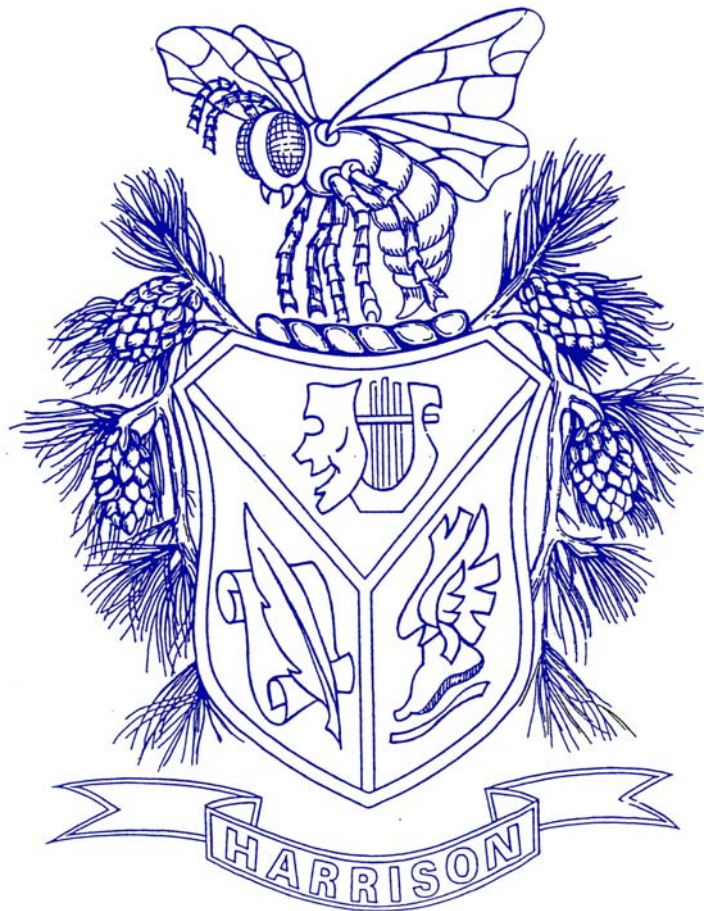


Harrison Community Schools

Financial Report
with Supplemental Information
Including Compliance Information

Year Ended June 30, 2008



Harrison Community Schools

Financial Report
with Supplemental Information
Including Compliance Information

Year Ended June 30, 2008

HARRISON COMMUNITY SCHOOLS

YEAR ENDED JUNE 30, 2008

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Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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October 1, 2008

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Harrison Community Schools
Harrison, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Harrison Community Schools, Harrison, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the Districts' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Harrison Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Harrison Community Schools, Harrison, Michigan, as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2008, on our consideration of Harrison Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The administration's discussion and analysis and budgetary comparison information on pages 3 through 7 and 31, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Harrison Community Schools, Harrison, Michigan basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Harrison Community Schools. The combining and individual nonmajor fund financial statements and supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

HARRISON COMMUNITY SCHOOLS ADMINISTRATION'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2008

This section of Harrison Community Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2008. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Harrison Community Schools financially as a whole. The District-wide Financial Statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant fund - the General Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Administration's Discussion and Analysis
(Required Supplemental Information)

Basic Financial Statements

District-Wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for the General Fund

Other Supplemental Information

Compliance Information

Reporting the School District as a Whole - District-wide Financial Statements

One of the most important questions asked about the School District is "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

HARRISON COMMUNITY SCHOOLS ADMINISTRATION'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District may establish other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the School District use the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental Fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statements of activities) and the governmental funds in a reconciliation.

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets as of June 30, 2008 and 2007:

TABLE 1

	Governmental Activities	
	June 30, 2008	June 30, 2007
Assets		
Current Assets	\$ 5,363,258	\$ 5,334,126
Noncurrent Assets	13,033,257	12,949,127
Total Assets	<u>18,396,515</u>	<u>18,283,253</u>
Liabilities		
Current Liabilities	3,471,389	3,016,880
Noncurrent Liabilities	11,811,323	11,379,335
Total Liabilities	<u>15,282,712</u>	<u>14,396,215</u>
Net Assets		
Invested In Property and Equipment - Net of related debt	2,730,628	1,848,173
Restricted	289,182	300,712
Unrestricted	93,993	1,738,153
Total Net Assets	<u>\$ 3,113,803</u>	<u>\$ 3,887,038</u>

HARRISON COMMUNITY SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$3,113,803 at June 30, 2008. Capital assets, net of related debt totaling \$2,730,628 compares the original cost, less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets of \$289,182 are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets of \$93,993 are unrestricted and represent the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years 2008 and 2007.

TABLE 2

	Governmental Activities	
	June 30, 2008	June 30, 2007
Revenue		
Program revenue:		
Charges for Services	\$ 276,720	\$ 326,511
Grants and Categoricals	3,133,590	3,693,749
General Revenue:		
Property Taxes	4,569,677	4,321,174
State Foundation Allowance	8,612,656	9,382,811
Other	427,270	316,306
Total Revenue	<u>17,019,913</u>	<u>18,040,551</u>
Function/Program Expenses		
Instruction	11,086,097	10,325,638
Support Services	4,958,355	5,259,313
Athletics	302,254	285,705
Food Services	849,468	762,504
Community Services	28,067	209,871
Payments to Other Districts and Site Improvement	24,439	15,101
Interest and Fees on Long Term Debt	544,468	580,860
Total Expenses	<u>17,793,148</u>	<u>17,438,992</u>
Increase (Decrease) in Net Assets	<u>\$ (773,235)</u>	<u>\$ 601,559</u>

As reported in the statement of activities, the cost of our governmental activities this year was \$17,793,148. Certain activities were partially funded from those who benefited from the programs through charges for services (\$276,720) or by other governments and organizations that subsidized certain programs with grants and categoricals (\$3,133,590). We paid for the remaining "public benefit" portion of our governmental activities with \$4,569,677 in taxes, \$8,612,656 in State Foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced a decrease in net assets of \$773,235. Key reasons for the change in net assets was an increase in liabilities for compensated absences due to a contract change.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State Aid constitute the vast majority of School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

**HARRISON COMMUNITY SCHOOLS
ADMINISTRATION'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$3,210,171, which is a decrease of \$471,459 from last year. The primary reason for the decrease was General Fund expenditures exceeded revenues by \$374,175, due to the construction of a new maintenance building and road improvements.

Our Special Revenue Funds decreased from the prior year, showing a net decrease of \$79,136.

Combined, the Debt Service Funds showed a fund balance decrease of \$18,148. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

Budgeted revenues and financial sources were increased \$800,878 which is a 5.5% increase overall from the original budget. Local sources were increased due to increases in property taxes and anticipated interest earnings. State sources were increased due to an increase in the base foundation allowance; and Federal Sources were increased to reflect secured grant allocations. Other financing sources were increased to reflect the sale of fixed assets and an insurance reimbursement for gym floor damage.

Budgeted expenditures and financial uses were increased \$1,221,601, which is a 8.2% increase from the original budget. Primarily this was to reflect the increase in expenditures based on the foundation grant increase, expenditures to building a new maintenance building, expenditures for road improvements, and expenditures to repair gym floors.

Variances between the final budget and actual amounts were insignificant in total. However, the actual amounts compared to the budget by function level vary slightly, causing budget violations at the legal level of adoption. This is primarily a result of accruals of unanticipated costs invoiced subsequent to the June 30, 2008 final budget adoption.

HARRISON COMMUNITY SCHOOLS ADMINISTRATION'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Capital Asset and Debt Administration

Capital Assets

At June 30, 2008 the School District had \$12,948,898 invested in a broad range of capital assets, including land, buildings, furniture, and equipment. The amount represents a net increase (including additions and disposals) of \$91,848 or 0.7%, from last year.

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Land	\$ 239,002	\$ 239,002
Construction in Progress	171,232	-
Buildings and Improvements	19,008,570	18,707,659
Buses and Other vehicles	49,500	49,500
Furniture and Equipment	431,361	470,471
Total Capital Assets	<u>19,899,665</u>	<u>19,466,632</u>
Less Accumulated Depreciation	<u>(6,950,767)</u>	<u>(6,609,582)</u>
Net Capital Assets	<u>\$ 12,948,898</u>	<u>\$ 12,857,050</u>

The actual additions for the year were \$472,143 and included a new maintenance building and construction in progress of road improvements.

We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At June 30, 2008, the School District had \$13,093,939 in long-term debt obligations outstanding. This amount represents a net increase (including additions and payoffs) of \$391,212, or 3.1%, from last year.

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Bonded Debt	\$ 10,464,626	\$ 11,262,950
Severance Agreements Payable	875,793	1,081,747
Compensated Absences Payable	1,753,520	358,030
Total Long-Term Debt Obligations	<u>\$ 13,093,939</u>	<u>\$ 12,702,727</u>

We present more detailed information about our long-term liabilities in the notes to the financial statements.

Contacting the School District's Financial Management

The financial report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, 224 W Main, Harrison, Michigan 48625.

HARRISON COMMUNITY SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2008

Statement I

Governmental
Activities

Assets

Current Assets

Cash and Cash Equivalents	\$ 2,535,303
Due from Other Governmental Units	2,712,568
Accounts Receivable	20,933
Inventories	<u>94,454</u>
Total Current Assets	5,363,258

Noncurrent Assets

Deferred Bond Issue Costs	84,359
Capital Assets	19,899,665
Less: Accumulated Depreciation	<u>(6,950,767)</u>
Total Noncurrent Assets	<u>13,033,257</u>

Total Assets

\$ 18,396,515

Liabilities and Net Assets

Liabilities

Current Liabilities

Accounts Payable	\$ 341,345
Short Term Notes and Contracts Payable	185,381
Accrued Salaries and Withholdings	1,466,396
Accrued Interest	43,205
Deferred Revenue	152,446
Bonds & Notes Payable, due within one year	940,269
Compensated Absences and Severance Pay, due within one year	<u>342,347</u>
Total Current Liabilities	3,471,389

Noncurrent Liabilities

Bonds & Notes Payable	9,524,357
Compensated Absences and Severance Pay	<u>2,286,966</u>
Total Noncurrent Liabilities	<u>11,811,323</u>

Total Liabilities

15,282,712

Net Assets

Invested in Capital Assets, Net of Related Debt	2,730,628
Restricted for Debt Service	289,182
Unrestricted	<u>93,993</u>

Total Net Assets

3,113,803

Total Liabilities and Net Assets

\$ 18,396,515

**HARRISON COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008**

Statement II

		Program Revenues		Governmental
		Charges for	Operating	Activities
	Expenses	Services	Grants/ Contributions	Net (Expense) Revenue and Changes in Net Assets
Functions / Programs				
Primary Government-				
Governmental Activities:				
Instruction	\$ 11,086,097	\$ 2,051	\$ 2,110,372	\$ (8,973,674)
Support Services	4,958,355	-	455,787	(4,502,568)
Athletics	302,254	59,855	2,330	(240,069)
Food Services	849,468	214,814	546,584	(88,070)
Community Services	28,067	-	18,517	(9,550)
Payments to Other Districts and Site				
Improvement	24,439	-	-	(24,439)
Interest and Fees on Long Term Debt	544,468	-	-	(544,468)
Total Governmental Activities	\$ 17,793,148	\$ 276,720	\$ 3,133,590	(14,382,838)
General Revenues:				
Taxes				
Property Taxes, Levied for General Purposes				3,485,473
Property Taxes, Levied for Debt Services				1,084,204
State Aid Not Restricted to Specific Purposes				8,612,656
Interest and Investment Earnings				94,461
Other				332,809
Total General Revenues				13,609,603
Change in Net Assets				(773,235)
Net Assets - Beginning of the Year				3,887,038
Net Assets - End of the Year				\$ 3,113,803

HARRISON COMMUNITY SCHOOLS
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2008

Statement III

	General Fund	Other Nonmajor Governmental Funds	Total
Assets			
Cash and Cash Equivalents	\$ 2,330,714	\$ 204,589	\$ 2,535,303
Taxes Receivable	8,924	1,080	10,004
Accounts Receivable	17,682	3,251	20,933
Due from Other Funds	2,379	112,119	114,498
Due from Other Governments	2,539,541	163,023	2,702,564
Inventories	78,268	16,186	94,454
Total Assets	\$ 4,977,508	\$ 500,248	\$ 5,477,756
Liabilities and Fund Balance			
Liabilities			
Accounts Payable	\$ 289,977	\$ 51,368	\$ 341,345
Retainage Payable	41,424	-	41,424
Due to Other Funds	112,119	2,379	114,498
Withholdings Payable	296,011	-	296,011
Accrued Items	395,824	-	395,824
Salaries Payable	774,561	-	774,561
Notes Payable	143,957	-	143,957
Deferred Revenue	159,230	735	159,965
Total Liabilities	2,213,103	54,482	2,267,585
Fund Balances			
Reserved for Inventories	78,268	16,186	94,454
Reserved for Debt Service	-	331,652	331,652
Unreserved-Designated reported in:			
General Fund - Capital Improvements	236,741	-	236,741
General Fund - Operating Contingency	2,449,396	-	2,449,396
Unreserved-Undesignated reported in:			
Special Revenue Funds	-	97,928	97,928
Total Fund Balance	2,764,405	445,766	3,210,171
Total Liabilities and Fund Balance	\$ 4,977,508	\$ 500,248	\$ 5,477,756

**HARRISON COMMUNITY SCHOOLS
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008**

Statement IV

	General Fund	Other Nonmajor Governmental Funds	Total
Revenue			
Local Sources	\$ 3,630,907	\$ 1,382,767	\$ 5,013,674
State Sources	10,046,894	43,718	10,090,612
Federal Sources	1,139,990	502,866	1,642,856
Interdistrict and Other Sources	<u>276,136</u>	<u>-</u>	<u>276,136</u>
Total Revenue	<u>15,093,927</u>	<u>1,929,351</u>	<u>17,023,278</u>
Expenditures			
Instruction	9,646,485	-	9,646,485
Support Services	4,868,811	-	4,868,811
Athletics	-	280,610	280,610
Food Service	-	846,980	846,980
Community Services	19,161	-	19,161
Payments to Other Public Schools	24,439	-	24,439
Site Improvement Services	171,232	-	171,232
Building Acquisition and Construction	300,911	-	300,911
Debt Service			
Principal	-	1,010,000	1,010,000
Interest and Fees	<u>-</u>	<u>330,958</u>	<u>330,958</u>
Total Expenditures	<u>15,031,039</u>	<u>2,468,548</u>	<u>17,499,587</u>
Other Financing Sources (Uses)			
Sale of Capital Assets	4,850	-	4,850
Transfers in	-	441,913	441,913
Transfers out	<u>(441,913)</u>	<u>-</u>	<u>(441,913)</u>
Total Other Financing Sources (Uses)	<u>(437,063)</u>	<u>441,913</u>	<u>4,850</u>
Net Change in Fund Balance	(374,175)	(97,284)	(471,459)
Fund Balance - July 1	<u>3,138,580</u>	<u>543,050</u>	<u>3,681,630</u>
Fund Balance - June 30	<u>\$ 2,764,405</u>	<u>\$ 445,766</u>	<u>\$ 3,210,171</u>

**HARRISON COMMUNITY SCHOOLS
GOVERNMENTAL FUNDS
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO NET ASSETS
YEAR ENDED JUNE 30, 2008**

Statement V

Total Fund Balances - Governmental Funds	\$ 3,210,171
---	---------------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.

Cost of Capital Assets	19,899,665
Accumulated Depreciation	(6,950,767)

Other assets not available to pay current period expenditures therefore deferred in the funds

7,519

Long-term liabilities are not due and payable in the current period and are not reported in the funds:

Deferred Bond Issue Costs	84,359
Bond and Notes Payable	(10,464,626)
Compensated absences and severance pay	(2,629,313)

Accrued interest payable is not included as a liability in the governmental activities

(43,205)

Total Net Assets - Governmental Activities	<u>\$ 3,113,803</u>
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**HARRISON COMMUNITY SCHOOLS
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008**

Statement VI

Net Change in Fund Balances - Total Governmental Funds **\$ (471,459)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(372,659)	
Capital Outlay	<u>472,143</u>	
		99,484

Repayments of bond and note principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		1,010,000
---	--	-----------

Governmental funds do not report interest until it is paid; interest is recorded when incurred in the statement of activities.		5,883
--	--	-------

Amortization of deferred bond issue costs is reported in the statement of activities but not in the governmental funds		(7,717)
--	--	---------

Amortization of bond premium/discounts is reported in the statement of activities but not in the governmental funds		(7,978)
---	--	---------

Deferred Loss on bond refinancing is reported in the statement of activities but not in the governmental funds		(203,698)
--	--	-----------

Payments on severance agreements is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).		313,391
---	--	---------

Added liability for new severance agreements entered into does not become an expenditure in the governmental funds until it is due, in the statement of activities it is an expense and increase in the long-term debt		(107,437)
--	--	-----------

Changes in the long term portion of compensated absences are reported as expenditures when financial resources are used in the governmental funds; in the statement of activities they are reported as accrued		(1,395,490)
--	--	-------------

Amounts received for sales of fixed assets are reported as revenue in the governmental funds; in the statement of activities the net gain or loss of the sale is recognized		(7,636)
---	--	---------

Revenue reported in the statement of activities that does not provide current financial resources is not reported as revenue in the governmental funds		<u>(578)</u>
--	--	--------------

Change in Net Assets of Governmental Activities **\$ (773,235)**

**HARRISON COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008**

Statement VII

Assets

Cash and cash equivalents

\$ 100,959

Liabilities

Due to Student Groups

\$ 100,959

HARRISON COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

Statement VIII

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Harrison Community Schools conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

A. Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School Districts' reporting entity, and which organizations are legally separate, component units of the school district. Based on the application of the criteria, the district does not contain any component units.

B. District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the district's government wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-Wide Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the district-wide financial statements.

HARRISON COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

Statement VIII

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Cont'd)

Fund Based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the district considers revenues to be available if they are reasonably expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the district.

The school district reports the following major governmental funds:

The **General Fund** is the schools district's primary operating fund. It accounts for all financial resources of the district, except those required to be accounted for in another fund.

Additionally, the school district reports the following fund types:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The school service funds are special revenue funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The school district maintains full control of these funds. The school service funds maintained by the school district are the Athletics Fund, and Food Service Fund.

Debt Retirement Funds are used to account for the accumulation of funds, and for the payment of, general long-term debt principal, interest, and related costs. The debt retirement funds maintained by the school district are the 1998 Debt Fund, 1999 Debt Fund, Energy Bond Debt Fund, and Durant Debt Fund.

Fiduciary Funds are used to account for assets held by the school district in a trustee capacity or an agent. Fiduciary fund net assets and results of operations are not included in the district-wide statements. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The school district presently maintains a Student Activities Fund to record the transactions for student and parent groups for school and school-related purposes.

D. Cash and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

E. Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds". Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds".

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The taxing units that comprise the district levy taxes in December. The final collection date is February 28, after which uncollected taxes are turned over to the respective counties which pay off the delinquent real assessments and add the personal assessments to the county delinquent tax rolls.

HARRISON COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

Statement VIII

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. Receivables and Payables (Cont'd)

Categorical grant program monies from State and Federal sources can only be used for specific costs. Any excess of funds received over expenditures from such funds are reported as deferred revenue or as liabilities to the funding agency if no future expenditures are allowable out of the remaining funds.

A liability is recorded for those amounts owed to teachers and other employees of the district who do not work during the summer when school is not in session but who have elected to have their salaries paid over the entire year. Likewise health insurance and other related benefits are also accrued in order to properly match the expenditures with the fiscal year in which the services of these employees were received.

F. Inventories and Prepaid Items

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the district-wide and fund financial statements.

G. Capital Assets

Capital assets, which include land, buildings, site improvements, equipment, and vehicles are reported in the district-wide financial statements. Capital assets are defined by the district as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The district does not have infrastructure type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

<u>Asset</u>	<u>Years</u>
Buildings and additions	20-50 years
Buses and other vehicles	8 years
Furniture and other equipment	5-20 years

H. Compensated Absences

It is the district's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation pay subject to payout on retirement is accrued when incurred in the district-wide financial statements. The liability for sick and similar leave absences has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. A current liability for these amounts is reported in the fund financial statements only if they have matured, for example, as a result of employee retirement.

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

HARRISON COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

Statement VIII

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

I. Long-Term Obligations

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

J. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

K. Comparative Data/Reclassifications

Comparative Data is not included in the school district's basic financial statements.

L. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information at the line item level. The legal level of budgetary control adopted by the board (i.e. the level at which expenditures may not legally exceed appropriations) is the function level for the general fund and at the fund level for the athletics and food service funds. State law requires the district to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year. The School District amended its budget at various times during the year.

Encumbrance accounting is not employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end lapse and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

HARRISON COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

Statement VIII

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Cont'd)

Excess of Expenditures Over Appropriations in Budgeted Funds - The following individual funds incurred expenditures in excess of the legal level of appropriations for the year ended June 30, 2008:

	Budgeted	Actual	Excess
<u>General Fund</u>	<u>Expenditures</u>	<u>Expenditures</u>	<u>Expenditures</u>
Instruction			
High School Instruction	\$ 2,003,631	\$ 2,057,684	\$ 54,053
Summer School	11,686	12,945	1,259
Vocational Education	202,845	207,043	4,198
Support Services			
Board of Education	123,715	130,212	6,497
Executive Administration	226,811	245,117	18,306
Office of the Principals	847,887	852,239	4,352
Fiscal Services	213,453	215,181	1,728
Information Management	151,500	156,637	5,137
Payments to Other Schools	-	24,439	24,439
Building Acquisition and Construction	264,164	300,911	36,747
Other Financing Uses	436,150	441,913	5,763
 <u>Athletics Fund</u>	 275,000	 280,610	 5,610
 <u>Food Service Fund</u>	 810,000	 846,980	 36,980

NOTE 3 - DEPOSITS AND INVESTMENTS

Investment rate risk. The School District will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the School District's cash requirement.

Foreign currency risk. The School District is not authorized to invest in investments, which have this type of risk.

Credit Risk. The School District will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the School District's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the School District will do business in accordance with the School District's investment policy.

Concentration of credit risk. The School District will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2008, \$2,577,508 of the School District's bank balance of \$2,777,508 was exposed to custodial credit risk because it was uninsured and uncollateralized.

HARRISON COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

Statement VIII

NOTE 3 - DEPOSITS AND INVESTMENTS (Cont'd)

Custodial credit risk - investments. For an investment, this is the risk that, in the event of failure of the counterparty, the School district would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's investments are categorized to give an indication of the level of risk assumed by the School District at year end. Category 1 includes investments that are insured or registered, or securities held by the School District of the School District's agent in the School District's name. Category 2 includes investment that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the School District's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the School District's name. At year end, the School District had no investments.

At year end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

The School Board has designated two banks for deposit of School District funds and had no investments other than deposits with financial institutions at June 30, 2008.

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and cash equivalents	\$ 2,535,303	\$ 100,959	\$ 2,636,262

At year end, the carrying amount of the district's cash and cash equivalents was comprised of the

	Governmental Activities	Fiduciary Funds	Total Primary Government
Deposits with Financial Institutions			
Cash in Time and Interest bearing Savings Accounts	\$ 2,521,675	\$ -	\$ 2,521,675
Cash in Non-Interest Bearing Checking Accounts	13,628	100,959	114,587
Total Cash and Cash Equivalents	<u>\$ 2,535,303</u>	<u>\$ 100,959</u>	<u>\$ 2,636,262</u>

Amounts covered by federal depository insurance were as follows:

	Insured (FDIC)	Uninsured	Total
Carrying Amount	\$ 200,000	\$ 2,436,262	\$ 2,636,262
Bank Balances	\$ 200,000	\$ 2,577,508	\$ 2,777,508

Larger amounts of deposits with financial institutions were uninsured and uncollateralized during the year than at year end due to varying cash flows. The school district believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. The School District places its deposits with high quality financial institutions. Although such deposits exceed federal limits, they are, in the opinion of the School District, subject to minimal risk.

HARRISON COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

Statement VIII

NOTE 4 - RECEIVABLES

Receivables as of year-end for the district's individual major funds and the nonmajor and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Nonmajor and Other Funds	Total
Taxes	\$ 8,924	\$ 1,080	\$ 10,004
Accounts	17,682	3,251	20,933
Due from other governments	2,539,541	163,023	2,702,564
Gross receivables	2,566,147	167,354	2,733,501
Less: allowance for uncollectibles	-	-	-
Net total receivables	<u>\$ 2,566,147</u>	<u>\$ 167,354</u>	<u>\$ 2,733,501</u>

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Delinquent property taxes receivable	\$ 7,518	\$ -
Grants Received in excess of expenditures		
Safe and Drug Free Schools	-	5,102
Restricted state aid received in excess of expenditures		
At Risk	-	147,345
Total deferred/unearned revenue for governmental funds	<u>\$ 7,518</u>	<u>\$ 152,447</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the school district's governmental activities was as follows:

	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
Assets not being depreciated:				
Land	\$ 239,002	\$ -	\$ -	\$ 239,002
Construction in Progress	-	171,232	-	171,232
Total capital assets not being depreciated	<u>239,002</u>	<u>171,232</u>	<u>-</u>	<u>410,234</u>
Capital assets being depreciated:				
Building and Improvements	18,707,659	300,911	-	19,008,570
Buses and other vehicles	49,500	-	-	49,500
Furniture and equipment	470,471	-	39,110	431,361
Total capital assets being depreciated	<u>19,227,630</u>	<u>300,911</u>	<u>39,110</u>	<u>19,489,431</u>
Accumulated depreciation:				
Building and Improvements	\$ (6,160,578)	\$ (359,259)	\$ -	\$ (6,519,837)
Buses and other vehicles	(42,700)	(1,700)	-	(44,400)
Furniture and equipment	(406,304)	(11,700)	(31,474)	(386,530)
Total accumulated depreciation	<u>(6,609,582)</u>	<u>(372,659)</u>	<u>(31,474)</u>	<u>(6,950,767)</u>
Net Capital assets being depreciated	<u>12,618,048</u>	<u>(71,748)</u>	<u>7,636</u>	<u>12,538,664</u>
Net capital assets	<u>\$ 12,857,050</u>	<u>\$ 99,484</u>	<u>\$ 7,636</u>	<u>\$ 12,948,898</u>

HARRISON COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

Statement VIII

NOTE 5 - CAPITAL ASSETS (Cont'd)

Depreciation expense was charged to activities of the school district and reported on the district-wide statements as follows:

Governmental activities:	
Instruction	\$ 267,423
Support Services	72,195
Community Services	8,907
Food Services	2,489
Athletics	21,645
Total governmental activities	<u>\$ 372,659</u>

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Food Service Fund	\$ 1,666
General Fund	1998 Debt Fund	713
Food Service Fund	General Fund	112,119
		<u>\$ 114,498</u>

All remaining balances generally resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All interfund balances outstanding at June 30, 2008 are expected to be repaid within one year.

<u>Transfer In to Fund</u>	<u>Transferred From Fund</u>	<u>Amount</u>
Athletics Fund	General Fund	\$ 218,772
Energy Bond Debt Fund	General Fund	223,141
		<u>\$ 441,913</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt services from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 7 - SHORT TERM DEBT FINANCING

During the year the school district issued state aid anticipation notes to assist with cash flow needs for general operations. A schedule of changes in these short term borrowings are as follows:

	Balance July 1, 2007	Additions	Payments / Reductions	Balance June 30, 2008
Issued \$1,200,000 on 8/18/2006	\$ 157,072	\$ -	\$ 157,072	\$ -
Issued \$1,100,000 on 8/20/2007	<u>-</u>	<u>1,100,000</u>	<u>956,043</u>	<u>143,957</u>
	<u>\$ 157,072</u>	<u>\$ 1,100,000</u>	<u>\$ 1,113,115</u>	<u>\$ 143,957</u>

HARRISON COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

Statement VIII

NOTE 8 - LONG TERM DEBT

The school district issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the school district. Durant Bonds are funded by the State of Michigan via specifically appropriated State Aid and will not require any district debt levy or utilization of any other district financial resources. Other long-term obligations include compensated absences and severance pay.

Long-term obligation activity can be summarized as follows:

	Balance July 1, 2007	Additions	Payments / Reductions	Balance June 30, 2008	Amount Due Within One Year
Bonded Debt	\$ 13,931,997	\$ -	\$ 1,010,000	\$ 12,921,997	\$ 940,269
Less deferred amounts:					
For Issuance discounts					
/losses	(2,669,047)	-	(211,676)	(2,457,371)	
Total Bonded Debt	11,262,950	-	798,324	10,464,626	
Severance Payable	1,081,747	107,437	313,391	875,793	324,347
Compensated Absences	358,030	1,395,490	-	1,753,520	Unknown
Total governmental activity long-term liabilities	<u>\$ 12,702,727</u>	<u>\$ 1,502,927</u>	<u>\$ 1,111,715</u>	<u>\$ 13,093,939</u>	

Annual Debt service requirements to maturity for each of these debts is as follows:

Bonded Debt

Durant Bonds

Issued: November 1998

Original Amount: \$274,358

Interest: 4.76%

Due: May 15,

Fiscal Year Ended	Interest	Principal
2009	\$ 3,998	\$ 15,269
2010	3,271	15,995
2011	34,657	94,791
2012	1,711	17,554
2013	875	18,388
	<u>\$ 44,512</u>	<u>\$ 161,997</u>

1998 Refunding Bonds

Issued: December 29, 1998

Original Amount: \$7,585,000

Interest: 3.75 - 4.50%

Due: May 1,

Fiscal Year Ended	Interest	Principal
2009	\$ 222,288	\$ 770,000
2010	190,332	680,000
2011	161,774	745,000
2012	129,738	815,000
2013	94,285	890,000
2014-2018	<u>165,375</u>	<u>1,225,000</u>
	<u>\$ 963,792</u>	<u>\$ 5,125,000</u>

HARRISON COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

Statement VIII

NOTE 8 - LONG TERM DEBT (Cont'd)

Bonded Debt (Cont'd)

1999 Refunding Bonds
 Issued: February 19, 1999
 Original Amount: \$5,775,000
 Interest paid from escrow until 2009
 Interest: 4.5-4.8%
 Due: May 1,

<u>Fiscal Year Ended</u>	<u>Interest</u>	<u>Principal</u>
2009	\$ -	\$ -
2010	269,048	-
2011	269,048	-
2012	269,048	-
2013	269,048	-
2014-2018	1,002,452	3,940,000
2019-2020	132,751	1,835,000
	<u>\$ 2,211,395</u>	<u>\$ 5,775,000</u>

Energy Bonds
 Issued: July 28, 2005
 Original Amount: \$2,305,000
 Interest: 3.50 - 3.75%
 Due: May 1,

<u>Fiscal Year Ended</u>	<u>Interest</u>	<u>Principal</u>
2009	\$ 67,650	\$ 155,000
2010	62,225	160,000
2011	56,625	170,000
2012	50,675	175,000
2013	44,550	180,000
2014-2018	117,562	1,020,000
	<u>\$ 399,287</u>	<u>\$ 1,860,000</u>

Total Bonded Debt \$ 3,618,986 \$ 12,921,997

Severance Payments Payable

<u>Fiscal Year Ended</u>	<u>Principal</u>
2009	324,347
2010	296,798
2011	131,014
2012	92,004
2013	31,630
	<u>\$ 875,793</u>

Compensated Absences

Amount estimated at June 30, 2008 \$ 1,753,520

HARRISON COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

Statement VIII

NOTE 8 - LONG TERM DEBT (Cont'd)

Advance Refundings

On December 29, 1998 the District issued \$7,585,000 of General Obligation Bonds with an average interest rate of 4.38% for the purpose of refunding \$6,665,000 of the Districts 1994 Bonds which are callable on or after May 1, 2004 and are due and payable for the years 2007 through 2013, and to pay the costs of issuance of the bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. This advance refunding resulted in a reduction \$28,698 in future debt service payments.

On February 19, 1999 the District issued \$5,775,000 of General Obligation Bonds with an average interest rate of 4.74% for the purpose of refunding \$1,953,664 of the Districts 1994 Bonds which are callable on or after May 1, 2009 and are due and payable for the years 2014 through 2020, and to pay the costs of issuance of the bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. This advance refunding resulted in a reduction \$39,071 in future debt service payments.

Durant Non-Plaintiff Bond

Included in Governmental Activities General Obligation Bonds is the Durant Non-Plaintiff Bond. Annual total payments (principal and interest) associated with this bond are funded by the State of Michigan via specifically appropriated State Aid and will not require any District debt levy or utilization of any other District financial resources.

NOTE 9 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The School District has purchased commercial insurance for health claims and participates in the SET/SEG (risk pool) for claims relating to workers' compensation and the MASB/SEG (risk pool) for claims relating to property/casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operate as a common risk-sharing management program for school districts in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at PO Box 30171, Lansing, MI 48909.

Funding Policy - Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

HARRISON COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

Statement VIII

NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS (Cont'd)

The pension benefit rate totals 17.43 percent for the period July 1, 2007 through September 30, 2007 and 16.72 percent for the period October 1, 2007 through June 30, 2008 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 to 4.3 percent of gross wages. The District's contributions to the MPSERS plan for the years ended June 30, 2008, 2007, and 2006 respectively were \$1,219,957, \$1,371,395, and \$1,542,653.

Post Employment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for the Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPSERS plan discussed above.

NOTE 11 - CONTINGENCIES

The District receives significant financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30.

The District is subject to legal proceedings arising in the course of providing education to students. However, in the opinion of the School's attorney and management, the resolution of these matters will not have a material effect, if any, on the financial condition of the School.

NOTE 12 - SALE OF FUTURE REVENUES

For several years, the District has sold its rights to delinquent real property tax revenues and related late payment penalties to the Clare and Gladwin County treasurers. For the 2008 tax roll the District received a lump sum payment of \$488,306 for general operating tax revenues and \$155,035 for debt service tax revenues. These amounts represent 100% of the present value of delinquent real property tax revenues. In exchange for these payments, the counties are allowed to keep the delinquent taxes collected plus the late payment penalties charged. If the counties are ultimately unable to collect any of these delinquent taxes, the District will have to repay the counties.

NOTE 13 - LEASING ACTIVITIES

The District has entered into a lease agreement with an entity whereby the entity leases a building from the District for \$1,500 per month. The terms of the lease are for 60 months beginning March, 2008, plus three optional 60 month renewal terms. The lessee also has an option to purchase the building and a first right of refusal. The purchase option is for \$375,000 but will be reduced by all rental payments made by the lessee up to the purchase date.

The following is a schedule by year of the total minimum lease payments as of June 30, 2008:

<u>Fiscal Year Ended</u>		
2009	\$	18,000
2010		18,000
2011		18,000
2012		18,000
2013		12,000

**HARRISON COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

Statement VIII

NOTE 14 - SUBSEQUENT EVENTS

On August 20, 2008, the District entered into short term borrowing for cash flow purposes in the form of State Aid Anticipation Note of \$1,440,000. This obligation will be paid back in seven equal monthly installments, including interest, of \$209,067 beginning in January 2009.

NOTE 15 - COMMITMENTS

The District has a contract for construction of a road which has a remaining unspent amount of \$164,821 at June 30, 2008. The contract is based on quantities of materials used, so the actual future amount to complete may be less than \$164,821.

REQUIRED SUPPLEMENTAL INFORMATION

**HARRISON COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON STATEMENT - GENERAL FUND
YEAR ENDED JUNE 30, 2008**

Schedule 1

	Original Budget	Final Amended Budget	Actual
Revenue			
Local Sources	\$ 3,574,032	\$ 3,681,472	\$ 3,630,907
State Sources	9,788,827	10,025,796	10,046,894
Federal Sources	1,053,867	1,333,736	1,139,990
Interdistrict and Other Sources	<u>79,250</u>	<u>251,000</u>	<u>276,136</u>
Total Revenue	<u>14,495,976</u>	<u>15,292,004</u>	<u>15,093,927</u>
Expenditures			
Instruction:			
Basic Program	6,498,218	6,559,218	6,490,908
Added Needs	3,007,369	3,305,271	3,155,577
Support Services			
Pupil	498,718	512,342	503,565
Instructional Staff	332,699	405,840	319,452
General Administration	306,511	350,526	375,329
School Administration	840,665	847,887	852,239
Business Services	295,769	274,453	256,469
Operations and Maintenance	1,346,872	1,515,041	1,454,320
Pupil Transportation	1,010,688	1,010,688	941,230
Central Services	158,000	163,000	166,207
Community Services			
Civic Activities	15,018	17,009	13,310
Non Public Schools	16,337	9,023	5,851
Payments to Other Public Schools	-	-	24,439
Site Improvements	-	292,753	171,232
Building Acquisition	<u>-</u>	<u>264,164</u>	<u>300,911</u>
Total Expenditures	<u>14,326,864</u>	<u>15,527,215</u>	<u>15,031,039</u>
Other Financing Sources (Uses)			
Sale of Capital Assets	-	4,850	4,850
Operating Transfers Out	<u>(414,900)</u>	<u>(436,150)</u>	<u>(441,913)</u>
Total Other Financing Sources (Uses)	<u>(414,900)</u>	<u>(431,300)</u>	<u>(437,063)</u>
Net Change in Fund Balance	<u>\$ (245,788)</u>	<u>(666,511)</u>	<u>(374,175)</u>
Fund Balance - July 1		<u>3,138,580</u>	<u>3,138,580</u>
Fund Balance - June 30		<u>\$ 2,472,069</u>	<u>\$ 2,764,405</u>

OTHER SUPPLEMENTAL INFORMATION

**HARRISON COMMUNITY SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008**

Schedule 2

	Special Revenue Funds		Debt Service Funds				
	Food		Energy				
	Athletics	Service	1998 Debt	1999 Debt	Bond Debt	Durant Debt	Total
Assets							
Cash and Cash Equivalents	\$ 1,561	\$ 19,394	\$ 181,514	\$ 2,120	\$ -	\$ -	\$ 204,589
Accounts Receivable	-	3,251	-	-	-	-	3,251
Taxes Receivable	-	-	1,080	-	-	-	1,080
Due from Other Funds	-	112,119	-	-	-	-	112,119
Due from Other Governments	-	14,637	148,386	-	-	-	163,023
Inventories	-	16,186	-	-	-	-	16,186
Total Assets	\$ 1,561	\$ 165,587	\$ 330,980	\$ 2,120	\$ -	\$ -	\$ 500,248
Liabilities and Fund Balance							
Liabilities							
Accounts Payable	\$ 1,214	\$ 50,154	\$ -	\$ -	\$ -	\$ -	\$ 51,368
Due to Other Funds	-	1,666	713	-	-	-	2,379
Deferred Revenue	-	-	735	-	-	-	735
Total Liabilities	1,214	51,820	1,448	-	-	-	54,482
Fund Balances							
Reserved for Inventories	-	16,186	-	-	-	-	16,186
Reserved for Debt Service	-	-	329,532	2,120	-	-	331,652
Unreserved-Undesignated	347	97,581	-	-	-	-	97,928
Total Fund Balance	347	113,767	329,532	2,120	-	-	445,766
Total Liabilities and Fund Balance	\$ 1,561	\$ 165,587	\$ 330,980	\$ 2,120	\$ -	\$ -	\$ 500,248

**HARRISON COMMUNITY SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
COMBINING STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008**

Schedule 3

	<u>Special Revenue Funds</u>		<u>Debt Service Funds</u>				
	Food		Energy				
	<u>Athletics</u>	<u>Service</u>	<u>1998 Debt</u>	<u>1999 Debt</u>	<u>Bond Debt</u>	<u>Durant Debt</u>	<u>Total</u>
Revenue							
Local Sources	\$ 62,185	\$ 220,913	\$ 1,099,669	\$ -	\$ -	\$ -	\$ 1,382,767
State Sources	-	43,718	-	-	-	-	43,718
Federal Sources	-	502,866	-	-	-	-	502,866
Total Revenue	62,185	767,497	1,099,669	-	-	-	1,929,351
Expenditures							
Support Services							
Athletics	280,610	-	-	-	-	-	280,610
Food Service	-	846,980	-	-	-	-	846,980
Debt Service							
Principal	-	-	860,000	-	150,000	-	1,010,000
Interest and Fees	-	-	257,517	300	73,141	-	330,958
Total Expenditures	280,610	846,980	1,117,517	300	223,141	-	2,468,548
Other Financing Sources (Uses)							
Transfers in	218,772	-	-	-	223,141	-	441,913
Total Other Financing Sources (Uses)	218,772	-	-	-	223,141	-	441,913
Net Change in Fund Balance	347	(79,483)	(17,848)	(300)	-	-	(97,284)
Fund Balance - July 1	-	193,250	347,380	2,420	-	-	543,050
Fund Balance - June 30	\$ 347	\$ 113,767	\$ 329,532	\$ 2,120	\$ -	\$ -	\$ 445,766

**HARRISON COMMUNITY SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
SCHEDULE OF REVENUE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2008**

(With Comparative Actual information for the Year Ended June 30, 2007)

Schedule 4

	2008		(Over) Under	2007 Actual
	Budget	Actual	Budget	
Revenue				
Local Sources				
Property Taxes	\$ 3,547,972	\$ 3,471,747	\$ 76,225	\$ 3,252,951
Other Taxes	2,500	-	2,500	-
Payments in Lieu of Taxes	2,000	14,122	(12,122)	3,053
Penalties and Interest on Delinquent Taxes/Taxes Abated	-	181	(181)	746
Tuition	-	2,051	(2,051)	3,060
Transportation Fees	-	-	-	285
Interest Earnings	70,000	72,898	(2,898)	83,831
Admissions	-	797	(797)	290
Rentals	21,000	21,380	(380)	25,986
Fees for Services	-	-	-	29,302
Contributions from Private Sources	24,000	31,510	(7,510)	23,025
Miscellaneous	14,000	16,221	(2,221)	36,596
Total Local Sources	3,681,472	3,630,907	50,565	3,459,125
State Sources				
State Aid Unrestricted	8,556,996	8,585,221	(28,225)	9,331,925
State Aid Restricted	1,468,800	1,461,673	7,127	1,880,112
State Aid Restricted through Local District	-	-	-	568
Total State Sources	10,025,796	10,046,894	(21,098)	11,212,605
Federal Sources				
Direct Federal	44,000	44,128	(128)	22,802
Federal Received through the State	1,278,804	1,090,032	188,772	1,325,802
Federal Received through Other Districts	10,932	5,830	5,102	5,766
Total Federal Sources	1,333,736	1,139,990	193,746	1,354,370
Interdistrict and Other Sources				
From other Districts	3,000	8,433	(5,433)	8,112
Transportation Fees from Other Districts	73,000	90,004	(17,004)	84,256
Other	175,000	177,699	(2,699)	15,678
Total Interdistrict and Other Sources	251,000	276,136	(25,136)	108,046
Total Revenue	15,292,004	15,093,927	198,077	16,134,146
Other Financing Sources				
Sale of Fixed Assets	4,850	4,850	-	805,718
Total Other Financing Sources	4,850	4,850	-	805,718
Total Revenue and Other Financing Sources	\$ 15,296,854	\$ 15,098,777	\$ 198,077	\$ 16,939,864

HARRISON COMMUNITY SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2008

(With Comparative Actual Information for the Year Ended June 30, 2007)

Schedule 5

	2008		(Over) Under	
	Budget	Actual	Budget	2007 Actual
INSTRUCTION				
Basic Programs				
Elementary				
Salaries	\$ 1,956,790	\$ 1,928,634	\$ 28,156	\$ 1,633,767
Employee Benefits	926,014	871,466	54,548	792,388
Purchased Services	61,350	55,476	5,874	49,653
Supplies and Materials	71,500	75,326	(3,826)	51,488
Capital Outlay	-	-	-	-
Other	500	264	236	95
Total Elementary	3,016,154	2,931,166	84,988	2,527,391
Middle School				
Salaries	809,418	822,892	(13,474)	1,090,290
Employee Benefits	427,751	401,910	25,841	555,906
Purchased Services	12,000	16,829	(4,829)	13,717
Supplies and Materials	26,000	13,235	12,765	27,168
Capital Outlay	-	-	-	-
Other	600	540	60	1,204
Total Middle School	1,275,769	1,255,406	20,363	1,688,285
High School				
Salaries	1,311,400	1,385,433	(74,033)	1,435,832
Employee Benefits	573,835	578,898	(5,063)	677,932
Purchased Services	58,046	41,028	17,018	43,304
Supplies and Materials	54,975	50,934	4,041	47,648
Capital Outlay	-	-	-	-
Other	5,375	1,391	3,984	3,480
Total High School	2,003,631	2,057,684	(54,053)	2,208,196
Pre-School Instruction				
Salaries	159,383	157,790	1,593	139,001
Employee Benefits	83,195	72,183	11,012	71,406
Purchased Services	1,800	1,497	303	2,082
Supplies and Materials	6,700	704	5,996	6,784
Capital Outlay	-	-	-	-
Other	900	1,533	(633)	907
Total Pre-School Instruction	251,978	233,707	18,271	220,180

HARRISON COMMUNITY SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2008

(With Comparative Actual Information for the Year Ended June 30, 2007)

Schedule 5

	2008		(Over) Under	
	Budget	Actual	Budget	2007 Actual
INSTRUCTION Continued				
Basic Programs Continued				
Summer School				
Salaries	\$ 9,338	\$ 8,993	\$ 345	\$ 11,075
Employee Benefits	2,348	2,256	92	2,737
Purchased Services	-	1,696	(1,696)	-
Supplies and Materials	-	-	-	189
Capital Outlay	-	-	-	-
Other	-	-	-	-
Total Summer School	11,686	12,945	(1,259)	14,001
Total Basic Programs	6,559,218	6,490,908	68,310	6,658,053
Added Needs				
Special Education				
Salaries	1,256,604	1,215,073	41,531	1,307,451
Employee Benefits	740,309	658,707	81,602	784,552
Purchased Services	20,200	19,148	1,052	23,431
Supplies and Materials	13,700	14,050	(350)	10,229
Capital Outlay	-	1,091	(1,091)	-
Other	300	-	300	-
Total Special Education	2,031,113	1,908,069	123,044	2,125,663
Compensatory Education				
Salaries	651,922	647,396	4,526	887,382
Employee Benefits	287,130	283,512	3,618	436,952
Purchased Services	27,792	19,059	8,733	27,584
Supplies and Materials	103,269	89,401	13,868	40,447
Capital Outlay	-	-	-	-
Other	1,200	1,097	103	1,095
Total Compensatory Education	1,071,313	1,040,465	30,848	1,393,460
Vocational Education				
Salaries	71,979	71,979	-	44,951
Employee Benefits	24,016	23,284	732	23,959
Purchased Services	103,000	102,883	117	66,750
Supplies and Materials	3,850	8,897	(5,047)	1,450
Capital Outlay	-	-	-	-
Other	-	-	-	-
Total Vocational Education	202,845	207,043	(4,198)	137,110
Total Added Needs	3,305,271	3,155,577	149,694	3,656,233
TOTAL INSTRUCTION	\$ 9,864,489	\$ 9,646,485	\$ 218,004	\$ 10,314,286

HARRISON COMMUNITY SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2008

(With Comparative Actual Information for the Year Ended June 30, 2007)

Schedule 5

	2008		(Over) Under	
	Budget	Actual	Budget	2007 Actual
SUPPORTING SERVICES				
Pupil Services				
Guidance Services				
Salaries	\$ 155,969	\$ 156,064	\$ (95)	\$ 148,239
Employee Benefits	75,853	75,841	12	76,248
Purchased Services	100	106	(6)	162
Supplies and Materials	7,150	4,703	2,447	3,574
Capital Outlay	-	-	-	-
Other	400	523	(123)	240
Total Guidance Services	239,472	237,237	2,235	228,463
Health Services				
Salaries	42,542	42,289	253	41,497
Employee Benefits	26,347	26,053	294	26,719
Purchased Services	2,180	2,110	70	1,079
Supplies and Materials	3,010	2,706	304	1,772
Capital Outlay	-	-	-	-
Other	645	873	(228)	500
Total Health Services	74,724	74,031	693	71,567
Other Pupil Services				
Salaries	76,711	76,217	494	76,283
Employee Benefits	78,685	71,789	6,896	79,269
Purchased Services	40,500	43,641	(3,141)	40,247
Supplies and Materials	250	-	250	274
Capital Outlay	-	-	-	-
Other	2,000	650	1,350	1,324
Total Other Pupil Services	198,146	192,297	5,849	197,397
Total Pupil Services	512,342	503,565	8,777	497,427
Instructional Staff				
Improvement of Instruction				
Salaries	34,763	46,286	(11,523)	73,165
Employee Benefits	8,640	11,498	(2,858)	19,222
Purchased Services	133,855	102,033	31,822	140,430
Supplies and Materials	26,563	23,413	3,150	87,997
Capital Outlay	-	-	-	-
Other	4,967	4,672	295	3,492
Total Improvement of Instruction	208,788	187,902	20,886	324,306

**HARRISON COMMUNITY SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2008**

(With Comparative Actual Information for the Year Ended June 30, 2007)

Schedule 5

	2008		(Over) Under	
	Budget	Actual	Budget	2007 Actual
SUPPORTING SERVICES Continued				
Instructional Staff Continued				
Educational Media Services				
Salaries	\$ 15,172	\$ 14,113	\$ 1,059	\$ 14,095
Employee Benefits	10,041	8,607	1,434	9,885
Purchased Services	10,455	5,636	4,819	400
Supplies and Materials	8,200	4,864	3,336	5,970
Capital Outlay	-	-	-	-
Other	46,580	20,253	26,327	57,855
Total Educational Media Service	90,448	53,473	36,975	88,205
Computer Assisted Instruction				
Purchased Services	-	-	-	2,500
Supplies and Materials	-	-	-	2,784
Total Computer Assisted Instruction	-	-	-	5,284
Supervision and Direction of Instructional Staff				
Salaries	52,216	38,601	13,615	43,464
Employee Benefits	22,688	17,728	4,960	16,772
Purchased Services	9,450	2,141	7,309	219
Supplies and Materials	10,250	8,657	1,593	17,471
Capital Outlay	-	-	-	-
Other	1,000	-	1,000	-
Total Supervision and Direction of Instructional Staff	95,604	67,127	28,477	77,926
Academic Student Assessment				
Supplies and Materials	-	-	-	17,808
Other	11,000	10,950	50	-
Total Academic Student Assessment	11,000	10,950	50	17,808
Total Instructional Staff	405,840	319,452	86,388	513,529
General Administration				
Board of Education				
Employee Benefits	-	-	-	64,998
Purchased Services	112,965	109,173	3,792	1,960
Supplies and Materials	250	220	30	-
Other	10,500	20,819	(10,319)	10,521
Total Board of Education	123,715	130,212	(6,497)	77,479

**HARRISON COMMUNITY SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2008**

(With Comparative Actual Information for the Year Ended June 30, 2007)

Schedule 5

	2008		(Over) Under	
	Budget	Actual	Budget	2007 Actual
SUPPORTING SERVICES Continued				
General Administration Continued				
Executive Administration				
Salaries	\$ 147,629	\$ 165,182	\$ (17,553)	\$ 141,385
Employee Benefits	70,252	71,549	(1,297)	70,051
Purchased Services	1,600	3,535	(1,935)	5,629
Supplies and Materials	3,630	2,532	1,098	4,831
Capital Outlay	-	-	-	-
Other	3,700	2,319	1,381	3,502
Total Executive Administration	226,811	245,117	(18,306)	225,398
Total General Administration	350,526	375,329	(24,803)	302,877
School Administration				
Office of the Principals				
Salaries	530,608	535,502	(4,894)	541,460
Employee Benefits	300,424	303,093	(2,669)	324,717
Purchased Services	3,000	2,939	61	377
Supplies and Materials	9,500	7,876	1,624	5,299
Capital Outlay	-	-	-	90
Other	4,355	2,829	1,526	1,350
Total School Administration	847,887	852,239	(4,352)	873,293
Business Services				
Fiscal Services				
Salaries	132,858	135,135	(2,277)	195,898
Employee Benefits	73,595	76,283	(2,688)	95,564
Purchased Services	2,000	644	1,356	1,482
Supplies and Materials	3,500	1,336	2,164	1,653
Capital Outlay	-	-	-	1,374
Other	1,500	1,783	(283)	1,264
Total Fiscal Services	213,453	215,181	(1,728)	297,235
Other Business Services				
Purchased Services	20,000	17,758	2,242	19,494
Other	41,000	23,530	17,470	26,671
Total Other Business Services	61,000	41,288	19,712	46,165
Total Business Services	274,453	256,469	17,984	343,400

**HARRISON COMMUNITY SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2008**

(With Comparative Actual Information for the Year Ended June 30, 2007)

Schedule 5

	2008		(Over) Under	
	Budget	Actual	Budget	2007 Actual
SUPPORTING SERVICES Continued				
Operations and Maintenance				
Building Operations				
Salaries	\$ 97,963	\$ 103,048	\$ (5,085)	\$ 116,048
Employee Benefits	57,082	72,369	(15,287)	107,213
Purchased Services	910,856	862,573	48,283	814,366
Supplies and Materials	429,440	411,421	18,019	402,331
Capital Outlay	15,000	-	15,000	19,364
Other	500	733	(233)	474
Total Building Operations	1,510,841	1,450,144	60,697	1,459,796
Security Services				
Purchased Services	4,200	4,176	24	-
Total Operations and Maintenance	1,515,041	1,454,320	60,721	1,459,796
Pupil Transportation				
Salaries	-	3,523	(3,523)	1,001
Employee Benefits	-	28,276	(28,276)	52,890
Purchased Services	920,688	813,436	107,252	845,795
Supplies and Materials	90,000	95,995	(5,995)	87,049
Capital Outlay	-	-	-	-
Other	-	-	-	44
Total Pupil Transportation	1,010,688	941,230	69,458	986,779
Central Services				
Central Support Services				
Purchased Services	5,000	5,000	-	6,000
Staff/Personnel Services				
Purchased Services	-	-	-	6,719
Information Management				
Salaries	-	-	-	29,179
Employee Benefits	-	-	-	11,553
Purchased Services	123,500	122,555	945	34,591
Supplies and Materials	18,500	25,112	(6,612)	153
Capital Outlay	-	-	-	7,819
Other	9,500	8,970	530	7,678
Total Information Management	151,500	156,637	(5,137)	90,973
Data Processing				
Purchased Services	\$ 6,500	\$ 4,570	\$ 1,930	\$ 15,965
Total Central Services	163,000	166,207	(3,207)	119,657
TOTAL SUPPORTING SERVICES	\$ 5,079,777	\$ 4,868,811	\$ 210,966	\$ 5,096,758

**HARRISON COMMUNITY SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2008**

(With Comparative Actual Information for the Year Ended June 30, 2007)

Schedule 5

	2008		(Over) Under	2007 Actual
	Budget	Actual	Budget	
COMMUNITY SERVICES				
Direction				
Salaries	-	-	-	111,656
Employee Benefits	-	-	-	59,791
Purchased Services	-	-	-	534
Supplies and Materials	-	-	-	255
Capital Outlay	-	-	-	-
Other	-	-	-	764
Total Direction	-	-	-	173,000
Civic Activities				
Salaries	-	47	(47)	-
Employee Benefits	-	12	(12)	-
Purchased Services	8,465	5,646	2,819	5,847
Supplies and Materials	8,544	7,605	939	13,683
Other	-	-	-	370
Total Civic Activities	17,009	13,310	3,699	19,900
Non-Public Schools				
Purchased Services	5,708	3,061	2,647	2,834
Supplies and Materials	3,315	2,790	525	11,759
Total Non-Public Schools	9,023	5,851	3,172	14,593
TOTAL COMMUNITY SERVICES	\$ 26,032	\$ 19,161	\$ 6,871	\$ 207,493
PAYMENTS TO OTHER PUBLIC SCHOOLS				
Other	-	24,439	(24,439)	-
SITE IMPROVEMENT SERVICES				
Capital Outlay	292,753	171,232	121,521	-
ARCHITECTURE AND ENGINEERING SERVICES				
Purchased Services	\$ -	\$ -	\$ -	\$ 1,510
BUILDING ACQUISITION AND CONSTRUCTION				
Capital Outlay	264,164	299,778	(35,614)	-
Other	-	1,133	(1,133)	-
TOTAL BUILDING ACQUISITION AND CONSTRUCTION	264,164	300,911	(36,747)	-
NON MATERIAL PRIOR PERIOD ADJUSTMENTS				
Other	-	-	-	6,852

**HARRISON COMMUNITY SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2008**

(With Comparative Actual Information for the Year Ended June 30, 2007)

Schedule 5

	2008		(Over) Under	2007 Actual
	Budget	Actual	Budget	
DEBT SERVICE				
Principal Payments	-	-	-	28,800
Interest and Fees	-	-	-	1,235
TOTAL DEBT SERVICE	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,035</u>
TOTAL EXPENDITURES	\$ 15,527,215	\$ 15,031,039	\$ 496,176	\$ 15,656,934
OTHER FINANCING USES				
Fund Modifications				
Athletics Fund	213,000	218,772	(5,772)	187,364
Energy Bond Debt Fund	223,150	223,141	9	228,391
TOTAL OTHER FINANCING USES	<u>436,150</u>	<u>441,913</u>	<u>(5,763)</u>	<u>415,755</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 15,963,365</u>	<u>\$ 15,472,952</u>	<u>\$ 490,413</u>	<u>\$ 16,072,689</u>

**HARRISON COMMUNITY SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
ATHLETICS FUND
SCHEDULE OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2008**

(With Comparative Actual Information for the Year Ended June 30, 2007)

Schedule 6

	<u>2008</u>		
	<u>Budget</u>	<u>Actual</u>	<u>(Over) Under Budget</u>
			<u>2007 Actual</u>
Revenue			
Admissions and Fees		\$ 59,810	\$ 66,827
Contributions and Other	-	2,375	5,040
Total Revenue	\$ 62,000	\$ 62,185	\$ (185) \$ 71,867
Expenditures			
Salaries		107,215	108,558
Employee Benefits		26,368	26,816
Purchased Services		107,549	94,174
Supplies and Materials		26,163	19,029
Other		13,315	13,251
Capital Outlay	-	-	-
Total Expenditures	\$ 275,000	\$ 280,610	\$ (5,610) \$ 261,828
Other Financing Sources			
Transfers In	<u>213,000</u>	<u>218,772</u>	<u>(5,772) 187,364</u>
Net Change in Fund Balance	-	347	(347) (2,597)
Fund Balance - July 1	-	-	- 2,597
Fund Balance - June 30	<u>\$ -</u>	<u>\$ 347</u>	<u>\$ (347) \$ -</u>

**HARRISON COMMUNITY SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
FOOD SERVICE FUND
SCHEDULE OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2008**

(With Comparative Actual Information for the Year Ended June 30, 2007)

Schedule 7

	2008		(Over)	2007
	Budget	Actual	Under Budget	Actual
Revenue				
Local Sources				
Sales		\$ 212,185		\$ 172,750
Miscellaneous		2,629		49,387
Interest Revenue		<u>6,099</u>		<u>10,373</u>
Total Local Sources		220,913		232,510
State Sources				
Restricted State Aid		43,718		45,213
Federal Sources				
Federal Aid Received through the State		470,473		432,005
USDA Food Commodities		<u>32,393</u>		<u>33,626</u>
Total Federal Sources	<u>-</u>	<u>502,866</u>	<u>-</u>	<u>465,631</u>
Total Revenue	<u>\$ 760,000</u>	<u>\$ 767,497</u>	<u>\$ (7,497)</u>	<u>\$ 743,354</u>
Expenditures				
Salaries		1,573		165,379
Employee Benefits		28,854		165,296
Purchased Services		357,308		141,845
Supplies and Materials		437,798		302,542
Other		3,339		300
Capital Outlay	<u>-</u>	<u>18,108</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>\$ 810,000</u>	<u>\$ 846,980</u>	<u>\$ (36,980)</u>	<u>\$ 775,362</u>
Net Change in Fund Balance	(50,000)	(79,483)	29,483	(32,008)
Fund Balance - July 1	<u>193,250</u>	<u>193,250</u>	<u>-</u>	<u>225,258</u>
Fund Balance - June 30	<u>\$ 143,250</u>	<u>\$ 113,767</u>	<u>\$ 29,483</u>	<u>\$ 193,250</u>

OTHER SUPPLEMENTAL - COMPLIANCE

**HARRISON COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008**

Exhibit 1

<u>FEDERAL GRANTOR</u>			Accrued				Accrued	
Pass-Through Grantor			(Deferred)	Memo Only		Current Year	(Deferred)	
PROGRAM TITLE	CFDA	Grant Award	Revenue	Prior Year	Current Year	Receipts	Revenue	Revenue
Project Number/Description	Number	Amount	07/01/07	Expenditures	Expenditures	(Returns)	06/30/08	Recognized
<u>US DEPARTMENT OF DEFENSE</u>								
United States Marines Corp								
ROTC	Unknown	\$ 44,128	\$ 1,927	\$ 22,802	\$ 44,128	\$ 41,719	\$ 4,336	\$ 44,128
<u>US DEPARTMENT OF AGRICULTURE</u>								
Passed Through Michigan Department of Education								
USDA DONATED COMMODITIES	10.550							
Entitlement Commodities FY 07-08		\$ 30,986	\$ -	\$ 33,480	\$ 31,595	\$ 31,595	\$ -	\$ 31,595
Bonus Commodities FY 07-08		1,580	-	146	798	798	-	798
Total Commodities		32,566	-	33,626	32,393	32,393	-	32,393
CHILD NUTRITION CLUSTER:								
SUMMER FOOD PROGRAM	10.559	12,017	8,912	16,815	12,017	10,646	10,283	12,017
NATIONAL SCHOOL LUNCH PROGRAM	10.555							
FY 07-08		332,961	-	308,689	332,961	332,961	-	332,961
NATIONAL SCHOOL LUNCH - BREAKFAST PROGRAM	10.553							
FY 07-08		125,495	-	106,501	125,495	125,495	-	125,495
Total Child Nutrition Cluster		470,473	8,912	432,005	470,473	469,102	10,283	470,473
TOTAL US DEPARTMENT OF AGRICULTURE		<u>\$ 503,039</u>	<u>\$ 8,912</u>	<u>\$ 465,631</u>	<u>\$ 502,866</u>	<u>\$ 501,495</u>	<u>\$ 10,283</u>	<u>\$ 502,866</u>
<u>US DEPARTMENT OF EDUCATION</u>								
Passed Through Michigan Department of Education								
ECIA TITLE I	84.010							
061530-0607		\$ 122,974	\$ 39,709	\$ 122,974	\$ -	\$ 39,709	\$ -	\$ -
071530-0607		755,127	188,275	698,403	415	188,690	-	415
081530-0708		859,339	-	-	832,633	654,576	178,057	832,633
Total ECIA Title I		1,737,440	227,984	821,377	833,048	882,975	178,057	833,048
SERVICE PROVIDER SELF REVIEW	84.027							
080440-0708		4,500	-	-	1,390	1,390	-	1,390

TITLE V INNOVATIVE EDUC PROGRAM STRATEGIES	84.298							
070250-0607		4,704	4,704	4,704	-	4,704	-	-
080250-0708		4,558	-	-	4,227	150	4,077	4,227
Total V Innovative Educ Program Strategies		9,262	4,704	4,704	4,227	4,854	4,077	4,227
TECHNOLOGY LITERACY CHALLENGE GRANTS	84.318							
074290-0607		7,800	(839)	6,959	-	(839)	-	-
084290-0708		9,817	-	-	8,007	7,806	201	8,007
Total Technology Literacy Challenge Grants		17,617	(839)	6,959	8,007	6,967	201	8,007
COMPREHENSIVE SCHOOL REFORM DEMONSTRATION	84.332							
061870-0607		140,350	6,986	104,437	30,045	37,031	-	30,045
Total Comprehensive School Reform Demostration		140,350	6,986	104,437	30,045	37,031	-	30,045
RURAL AND LOW INCOME SCHOOLS	84.358							
070660-0607		58,726	21,099	53,723	-	21,099	-	-
080660-0708		62,649	-	-	62,649	62,649	-	62,649
Total Rural and Low Income Schools		121,375	21,099	53,723	62,649	83,748	-	62,649
TITLE II PART A IMPROVING TEACHER QUALITY	84.367							
060520-0607		71,630	50,380	71,630	-	50,380	-	-
070520-0607		199,355	15,148	148,271	31,641	46,789	-	31,641
080520-0708		199,938	-	-	119,025	74,944	44,081	119,025
Total Title II Part A Improving Teacher Quality		470,923	65,528	219,901	150,666	172,113	44,081	150,666
Passed through Gratiot Isabella RESD								
DRUG FREE SCHOOLS & COMMUNITIES	84.186	13,345	(3,969)	2,413	5,830	6,963	(5,102)	5,830
TOTAL US DEPARTMENT OF EDUCATION		<u>\$ 2,514,812</u>	<u>\$ 321,493</u>	<u>\$ 1,213,514</u>	<u>\$ 1,095,862</u>	<u>\$ 1,196,041</u>	<u>\$ 221,314</u>	<u>\$ 1,095,862</u>
GRAND TOTAL		<u>\$ 3,061,979</u>	<u>\$ 332,332</u>	<u>\$ 1,701,947</u>	<u>\$ 1,642,856</u>	<u>\$ 1,739,255</u>	<u>\$ 235,933</u>	<u>\$ 1,642,856</u>
Total Direct Aid		\$ 44,128	\$ 1,927	\$ 22,802	\$ 44,128	\$ 41,719	\$ 4,336	\$ 44,128
Total Passed Through Michigan Department of Education		3,004,506	334,374	1,676,732	1,592,898	1,690,573	236,699	1,592,898
Total Passed Through By Other Agencies		13,345	(3,969)	2,413	5,830	6,963	(5,102)	5,830
Grand Total		<u>\$ 3,061,979</u>	<u>\$ 332,332</u>	<u>\$ 1,701,947</u>	<u>\$ 1,642,856</u>	<u>\$ 1,739,255</u>	<u>\$ 235,933</u>	<u>\$ 1,642,856</u>

HARRISON COMMUNITY SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

Exhibit 2

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used to prepare the Schedule of Expenditures of Federal Awards conform to generally accepted accounting principles as applicable to governmental entities. Refer to the Notes to the Financial Statements for additional explanations.

The Schedule of Expenditures of Federal Awards has been arranged in such a manner so as to provide information on both actual cash received and the resultant revenue recognized. Accordingly, the effect of accruals of Accounts Receivable, Deferred Revenue, and Accounts Payable have been reported.

NOTE 2 - MICHIGAN DEPARTMENT OF EDUCATION REQUIRED DISCLOSURES

The Grants Section Auditors Report (Form R7120) has been utilized in preparing the Schedule of Expenditures of Federal Awards. Applicable receipts reconcile with this schedule.

The amount reported on the Recipient Entitlement Balance Report or PAL Report agrees with this Schedule for USDA Donated Food Commodities.

HARRISON COMMUNITY SCHOOLS
HARRISON, MICHIGAN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

FINDINGS

2007-01 U.S DEPARTMENT OF AGRICULTURE

Child Nutrition Cluster - CFDA No 10.555 and 10.553

Passed Through Michigan Department of Education

Project No. - All Projects

Grant Period July 1, 2006 to June 30, 2007

Statement of Condition

The District did not comply with National School Lunch Program (NSLP) regulation 7 CFR 210.8 (a) (1) regarding on site reviews.

Criteria:

NSLP regulation 7 CFR 210.8 (a)(1) required that each School Food Authority (SFA) with more than one building conduct an annual on-site review in each building before February 1. A minimum of one on-site review per building is required; the district or SFA may conduct more reviews if needed.

Effect:

The District has not complied with NSLP regulation 7 CFR 210.8(a)(1) without this record keeping requirement being met.

Cause:

District unable to locate the on-site review forms and food service director no longer works for the school.

Auditor Recommendation:

The District should complete the required on-site reviews set forth by NSLP regulation 7 CFR 210.8(a)(1).

District Response:

The District will immediately begin to comply with this requirement.

Baird, Cotter and Bishop, P.C.

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October 1, 2008

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education
Harrison Community Schools
Harrison, Michigan

COMPLIANCE

We have audited the compliance of Harrison Community Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Harrison Community Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Harrison Community Schools' management. Our responsibility is to express an opinion on Harrison Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Harrison Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Harrison Community Schools' compliance with those requirements.

In our opinion, Harrison Community Schools complied in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

INTERNAL CONTROL OVER COMPLIANCE

The management of Harrison Community Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Harrison Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in a district's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type or compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the district's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the district's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

Baird, Cotter and Bishop, P.C.

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October 1, 2008

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Harrison Community Schools
Harrison, Michigan

We have audited the basic financial statements of Harrison Community Schools as of and for the year ended June 30, 2008, and have issued our report thereon dated October 1, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Harrison Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harrison Community Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the district's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Harrison Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

HARRISON COMMUNITY SCHOOLS
HARRISON, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Section I - Summary of Auditors - Results

Financial Statements

Type of auditors' report issued: Unqualified

Material weakness(es) identified: _____ Yes X No

Significant deficiencies identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified: _____ Yes X No

Significant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X None reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I – Improving Basic Programs

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Baird, Cotter and Bishop, P.C.

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October 1, 2008

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Board of Education
Harrison Community Schools
Harrison, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Harrison Community Schools for the year ended June 30, 2008, and have issued our report thereon dated October 1, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated June 13, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Harrison Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Harrison Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Harrison Community Schools' compliance with the types of compliance requirements described

in the “U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement” applicable to each of its major federal programs for the purpose of expressing an opinion on Harrison Community Schools’ compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Harrison Community Schools’ compliance with those requirements.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Harrison Community Schools are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007-08. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We proposed several adjusting journal entries which were reviewed and accepted by management. No material misstatements were noted.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 8, 2008.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

During the course of our audit of the basic financial statements of Harrison Community Schools for the year ended June 30, 2008, we noted the following item which we feel deserves comment:

Changes in Business Office Staffing

In the course of our examination we became aware of the retirement of Kelly Hileman from the position of Business Manager of the school district. We congratulate Mr. Hileman for his excellent service to the school district and wish him well in his retirement. We recommend that the District carefully consider the impact of any additional reduction in staff from the business office. If the business office staff is reduced, the school district would most likely lack appropriate segregation of duties which would cause a significant deficiency in internal control.

Control Deficiency Related to Cash Receipting Process and Review of Journal Entries

During the course of our examination, we determined that the controls over the cash receipting process and review of journal entries are limited or lacking. In considering this potential risk, the District must consider the cost of strengthening internal controls in these areas versus the perceived benefit.

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.